

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John A. Settles, Washington County Judge/Executive
Members of the Washington County Fiscal Court

The enclosed report prepared by Noel C. Turner, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Noel C. Turner, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Noel C. Turner, PSC evaluated the Washington County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2004

Noel C. Turner, PSC has completed the audit of the Washington County Fiscal Court for fiscal year ended June 30, 2004. I have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information financial statements of Washington County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$2,452,822 as of June 30, 2004. Of the total net assets, the fiscal court had unrestricted net assets of \$1,025,152 as of June 30, 2004. The fiscal court had total capital financing obligations as of June 30, 2004 of \$90,916 with \$21,334 due within the next year.

Report Comment:

- Financial reporting system deficiencies

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM



America Counts on CPAs

NOEL C. TURNER, PSC
Certified Public Accountant

P.O. Box 363
206 South Main Street
Harrodsburg, KY 40330
Voice: (859) 733-9241
Fax: (859) 733-9240
Mobile: (859) 265-0483
E-mail: noel@noelturnercpa.com

Member:
American Institute of Certified
Public Accountants

Kentucky Society of Certified
Public Accountants

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable John A. Settles, Washington County Judge/Executive
Members of the Washington County Fiscal Court

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washington County Fiscal Court. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, Washington County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with the modified cash basis of accounting.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky
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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, I did not audit it and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 2, 2005, on our consideration of Washington County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of my audit, I present the schedule of comment and recommendation, included herein, which discusses the following report comment:

- Financial reporting system deficiencies

Noel C. Turner, PSC

Harrodsburg, Kentucky

Audit fieldwork completed -
August 2, 2005

WASHINGTON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

John A. Settles	County Judge/Executive
Simeon Cambron	Magistrate
Ernest Reed Goff	Magistrate
Hal B. Goode	Magistrate
Billy Riney, Jr.	Magistrate
Greg Simms	Magistrate
Terry L. Tingle	Magistrate

Other Elected Officials:

Hamilton B. Simms	County Attorney
Steve Hardin	Jailer
Glenn Black	County Clerk
George Graves	Circuit Court Clerk
Tommy Bartley	Sheriff
Margaret Platt	Property Valuation Administrator
Freddie Carey	Coroner

Appointed Personnel:

Carla D. Hardin	County Treasurer
George Ann Palmer	Occupational Tax Collector
Sheila D. Smith	Finance Officer
Fred Armstrong	911 Administrator

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**WASHINGTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2004

WASHINGTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,034,542
Due from Other Agencies	21,334
Total Current Assets	<u>1,055,876</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation:	
Historical Treasures	8,000
Land & Land Improvements	212,266
Buildings & Improvements	435,908
Machinery & Equipment	147,619
Office Furniture	6,518
Vehicles	216,519
Infrastructure	<u>400,840</u>
Total Capital Assets	1,427,670
Due from Other Agencies	<u>69,582</u>
Total Noncurrent Assets	<u>1,497,252</u>
Total Assets	<u>2,553,128</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations Payable	21,334
Payroll Taxes Payable	<u>9,390</u>
Total Current Liabilities	<u>30,724</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>69,582</u>
Total Noncurrent Liabilities	<u>69,582</u>
Total Liabilities	<u>100,306</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,427,670
Unrestricted	<u>1,025,152</u>
Total Net Assets	<u><u>\$ 2,452,822</u></u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

WASHINGTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 612,192	\$	\$ 119,517	\$
Protection to Persons and Property	1,003,427	422,529	37,508	11,133
General Health and Sanitation	192,737			
Social Services	366,599		322,817	
Recreation and Culture	18,994			
Transportation Facilities and Services	4,667			
Roads	574,517		813,953	418,267
Interest paid on Financing Obligations	2,465			
Bus Services	20,936			
Capital Projects	16,829			
Administration	431,404			
Total Governmental Activities	3,244,767	422,529	1,293,795	429,400
Total Primary Government	\$ 3,244,767	\$ 422,529	\$ 1,293,795	\$ 429,400

General Revenues:

Taxes:

Real Property Taxes

Insurance Premium Taxes

Motor Vehicle Taxes

Occupational taxes

Other Taxes

Excess Fees

Licenses and Permits

Unrestricted Investment Earnings

Building Rental

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WASHINGTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ (492,675)	\$ (492,675)
(532,257)	(532,257)
(192,737)	(192,737)
(43,782)	(43,782)
(18,994)	(18,994)
(4,667)	(4,667)
657,703	657,703
(2,465)	(2,465)
(20,936)	(20,936)
(16,829)	(16,829)
(431,404)	(431,404)
(1,099,043)	(1,099,043)
<u>\$ (1,099,043)</u>	<u>\$ (1,099,043)</u>
260,311	260,311
457,601	457,601
42,295	42,295
668,037	668,037
136,797	136,797
19,120	19,120
26,449	26,449
9,438	9,438
5,792	5,792
245,087	245,087
1,870,927	1,870,927
771,884	771,884
1,680,938	1,680,938
<u>\$ 2,452,822</u>	<u>\$ 2,452,822</u>

The accompanying notes are an integral part of the financial statements.

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WASHINGTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

WASHINGTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 561,351	\$ 439,714	\$ 33,477	\$ 1,034,542
Total assets	<u>\$ 561,351</u>	<u>\$ 439,714</u>	<u>\$ 33,477</u>	<u>\$ 1,034,542</u>
LIABILITIES				
Payroll taxes payable	\$ 9,390			\$ 9,390
Total Liabilities	<u>\$ 9,390</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,390</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 469,715			\$ 469,715
Special Revenue Fund		\$ 439,254	\$ 33,477	472,731
Reserved for:				
Encumbrances	<u>82,246</u>	<u>460</u>		<u>82,706</u>
Total Fund Balances	<u>\$ 551,961</u>	<u>\$ 439,714</u>	<u>\$ 33,477</u>	<u>\$ 1,025,152</u>
Total Liabilities and Fund Balances	<u>\$ 561,351</u>	<u>\$ 439,714</u>	<u>\$ 33,477</u>	<u>\$ 1,034,542</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 1,025,152
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Due from Other Agencies is not receivable in the current period and therefore is not reported in the funds	90,916
Capital Assets Used in Governmental Activities are not financial resources and therefore are not reported in the funds	2,270,010
Accumulated Depreciation	(842,340)
Financing obligations are not due and payable in the current period and therefore are not reported in the funds	<u>(90,916)</u>
Net Assets Of Governmental Activities	<u>\$ 2,452,822</u>

The accompanying notes are an integral part of the financial statements.

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WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,565,041	\$	\$	\$ 1,565,041
In Lieu Tax Payments				
Excess Fees	19,120			19,120
Licenses and Permits	26,449			26,449
Intergovernmental	130,650	1,180,226	412,319	1,723,195
Charges for Services	421,184		1,345	422,529
Miscellaneous	259,294	13,290	9,580	282,164
Interest	6,770	2,644	24	9,438
Total Revenues	<u>2,428,508</u>	<u>1,196,160</u>	<u>423,268</u>	<u>4,047,936</u>
EXPENDITURES				
General Government	851,182			851,182
Protection to Persons and Property	789,719		262,331	1,052,050
General Health and Sanitation	189,782			189,782
Social Services	21,660		337,882	359,542
Recreation and Culture	16,240	2,754		18,994
Roads		898,588	35,126	933,714
Transportation Facilities and Services		4,667		4,667
Bus Services	20,936			20,936
Capital Projects		16,829		16,829
Debt Service:				
Principal	31,286			31,286
Interest	2,465			2,465
Administration	307,594	107,160	16,650	431,404
Total Expenditures	<u>2,230,864</u>	<u>1,029,998</u>	<u>651,989</u>	<u>3,912,851</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>197,644</u>	<u>166,162</u>	<u>(228,721)</u>	<u>135,085</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			228,000	228,000
Transfers To Other Funds	(228,000)			(228,000)
Total Other Financing Sources (Uses)	<u>(228,000)</u>		<u>228,000</u>	
Net Change in Fund Balances	(30,356)	166,162	(721)	135,085
Fund Balances - Beginning	582,317	273,552	34,198	890,067
Fund Balances - Ending	<u>\$ 551,961</u>	<u>\$ 439,714</u>	<u>\$ 33,477</u>	<u>\$ 1,025,152</u>

The accompanying notes are an integral part of the financial statements.

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**WASHINGTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

WASHINGTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	135,085
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		739,634
Depreciation Expense		(102,836)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.

Financing Obligations Repaid		31,286
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The repayment of funds due from other agencies provides current financial resources to governmental funds, while the repayment of those at the government-wide level reduces the amount due from agencies and the corresponding debt incurred by the county on behalf of the entity.

Repayment from other agencies for debt incurred by county		(30,397)
Debt Forgiven by the Fiscal Court		(888)

Change in Net Assets of Governmental Activities	\$	771,884
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TO THE FINANCIAL STATEMENTS**

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**WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Washington County include only the funds of the primary government. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 39, is determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity could include organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. There are no component units requiring inclusion in this audit.

C. Washington County Elected Officials Not Part Of Washington County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Washington County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Washington County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Governmental Funds

Separate fund financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Road Fund - This fund is for road construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Jail Fund, and Jimtown Redevelopment Project Grant Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and Jimtown Redevelopment Project Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land, construction in progress, and historical treasures are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 10,000	3-25
Office Furniture	\$ 2,500	2-10
Vehicles	\$ 10,000	3-25
Infrastructure	\$ 15,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of capital leases is reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Washington County Library is considered a related organization of the Washington County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Springfield-Washington County Economic Development Authority is considered a jointly governed organization of the Washington County Fiscal Court.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Page 32

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 212,266	\$	\$	\$ 212,266
Historical Treasures	8,000			8,000
Total Capital Assets Not Being Depreciated	220,266			220,266
Capital Assets, Being Depreciated:				
Buildings & Improvements	576,300	239,814		816,114
Machinery & Equipment	332,274			332,274
Office Furniture		6,628		6,628
Vehicles	401,536	74,924		476,460
Infrastructure		418,267		418,267
Total Capital Assets Being Depreciated	1,310,110	739,633		2,049,743
Less Accumulated Depreciation For:				
Buildings & Improvements	(365,807)	(14,399)		(380,206)
Machinery & Equipment	(157,369)	(27,285)		(184,654)
Office Furniture		(110)		(110)
Vehicles	(216,327)	(43,614)		(259,941)
Infrastructure		(17,428)		(17,428)
Total Accumulated Depreciation	(739,503)	(102,836)		(842,339)
Total Capital Assets, Being Depreciated, Net	570,607	636,797		1,207,404
Governmental Activities Capital Assets, Net	\$ 790,873	\$ 636,797	\$ 0	\$ 1,427,670

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 7,453
Protection to Persons and Property	26,301
General Health and Sanitation	2,955
Social Services	7,057
Roads	59,070
Total Depreciation Expense - Governmental Activities	\$ 102,836

Note 4. Financing Obligations

All lease agreements entered into by Washington County Fiscal Court are entered into on behalf of other entities. For item A. below, the other entity makes the payments directly to the trustee. For items B., C., and D. below, the Fiscal Court makes the payments to the trustee and is simultaneously reimbursed by the other entities.

A. Mackville Fire Department - Fire Truck

On November 26, 1997, the fiscal court on behalf of the Mackville Fire Department entered into an agreement with the Kentucky Area Development Districts Financing Trust (KADD) in the amount of \$75,000 at an interest rate of 6.20% for the acquisition of a fire truck. On November 12, 2003, KADD revised the terms of this agreement. The revised agreement increased the outstanding principal due by \$4,000, from \$68,000 to \$72,000 and lowered the effective interest rate to 3.16%. This revision created debt service savings of \$4,767 over the remaining term of the obligation. The Mackville Fire Department makes the principal and interest payments to the Bank of New York (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 2,049	\$ 6,000
2006	1,927	5,000
2007	1,782	6,000
2008	1,609	49,000
Totals	<u>\$ 7,367</u>	<u>\$ 66,000</u>

B. Willisburg Fire Department - Fire Truck

On August 15, 1995, the fiscal court on behalf of the Willisburg Fire Department entered into an agreement with the Kentucky Association of Counties Leasing trust Program in the amount of \$42,000 at an interest rate of 4.58% for the acquisition of a fire truck. The term is for 10 years with the balance to be paid in full on September 20, 2005. During the fiscal year, the county received \$11,394 in interest and principal from the Willisburg Fire Department. The county then paid the debt service payments to Bank One (the trustee). This lease was paid in full as of June 30, 2004.

Note 4. Financing Obligations (Continued)

C. Washington County Rescue Squad - Rescue Vehicle

On February 10, 1999, the fiscal court on behalf of the Washington County Rescue Squad entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$50,000 at an interest rate of 4.10% for the acquisition of a rescue truck. The term is for 7 years with the balance to be paid in full on January 20, 2006. During the fiscal year, the county received \$6,299 in interest and principal from the Washington County Rescue Squad. The county then paid the debt service payments to Bank One (the trustee). Principal payment requirements and scheduled interest for the remaining term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 261	\$ 7,000
2006	30	1,000
Totals	<u>\$ 291</u>	<u>\$ 8,000</u>

D. Willisburg Fire Department - Rescue Vehicle

On June 11, 2003, the fiscal court on behalf of the Willisburg Fire Department entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$25,000 at a variable interest rate (currently 2.175%) for the acquisition of a rescue truck. The term is for three years with the balance to be paid in full on January 20, 2006. During the fiscal year, the county received \$7,195 in principal and interest from the Willisburg Fire Department. The county then paid the debt service payments to National City Bank (the trustee). Principal payment requirements and scheduled interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2005	\$ 392	\$ 8,334
2006	145	8,582
Totals	<u>\$ 537</u>	<u>\$ 16,916</u>

Note 4. Financing Obligations (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
KADD Financing Obligations	\$ 68,000	\$ 4,000	\$ 6,000	\$ 66,000	\$ 6,000
KACO Financing Obligations	50,202	-	25,286	24,916	15,334
Governmental Activities					
Long-term Liabilities	<u>\$ 118,202</u>	<u>\$ 4,000</u>	<u>\$ 31,286</u>	<u>\$ 90,916</u>	<u>\$ 21,334</u>

Note 5. Due From Other Agencies

The county has receivables due from the entities for which the county has incurred debt on their behalf. Payments received from these agencies are used to pay off the debt (see Note 4). The total due from other agencies is \$90,916 and includes amounts due from:

Mackville Fire Department	\$ 66,000
Washington County Rescue Squad	8,000
Willisburg Fire Department	<u>16,916</u>
Total	<u>\$ 90,916</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Washington County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Washington County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Interfund Transfers

During the fiscal year, the county made a transfer from the General Fund to the Jail Fund in the amount of \$228,000.

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$790,872 due to capital assets and long-term debt previously not reported.

WASHINGTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

WASHINGTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,360,100	\$ 1,391,078	\$ 1,565,041	\$ 173,963
In Lieu Tax Payments				
Excess Fees	9,288	15,000	19,120	4,120
Licenses and Permits	24,160	24,160	26,449	2,289
Intergovernmental Revenue	118,120	118,120	130,650	12,530
Charges for Services	350,000	350,000	421,184	71,184
Miscellaneous	105,200	244,108	253,785	9,677
Interest	8,900	8,900	5,097	(3,803)
Total Revenues	1,975,768	2,151,366	2,421,326	269,960
EXPENDITURES				
General Government	753,849	908,328	851,182	57,146
Protection to Persons and Property	753,786	868,006	789,719	78,287
General Health and Sanitation	151,327	196,182	189,782	6,400
Social Services	16,200	22,200	21,660	540
Recreation and Culture		16,240	16,240	
Bus Services	25,000	25,000	20,936	4,064
Capital Projects	34,500	7,250		7,250
Debt Service	12,700	27,300	26,569	731
Administration	329,955	367,109	307,594	59,515
Total Expenditures	2,077,317	2,437,615	2,223,682	213,933
Excess (Deficiency) of Revenues				
Over Expenditures Before Other Financing Sources (Uses)	(101,549)	(286,249)	197,644	483,893
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(297,451)	(297,451)	(228,000)	69,451
Total Other Financing Sources (Uses)	(297,451)	(297,451)	(228,000)	69,451
Net Changes in Fund Balances	(399,000)	(583,700)	(30,356)	553,344
Fund Balances - Beginning	399,000	583,700	582,317	(1,383)
Fund Balances - Ending	\$ 0	\$ 0	\$ 551,961	\$ 551,961

WASHINGTON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 791,000	\$ 1,000,783	\$ 1,180,226	\$ 179,443
Miscellaneous	6,100	49,545	13,290	(36,255)
Interest	3,600	3,600	2,644	(956)
Total Revenues	<u>800,700</u>	<u>1,053,928</u>	<u>1,196,160</u>	<u>142,232</u>
EXPENDITURES				
Recreation and Culture	17,800	17,800	2,754	15,046
Transportation Facilities and Services	17,130	10,210	4,667	5,543
Roads	755,432	984,157	898,588	85,569
Capital Projects	30,000	17,400	16,829	571
Administration	104,138	297,723	107,160	190,563
Total Expenditures	<u>924,500</u>	<u>1,327,290</u>	<u>1,029,998</u>	<u>297,292</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(123,800)</u>	<u>(273,362)</u>	<u>166,162</u>	<u>439,524</u>
Net Changes in Fund Balances	(123,800)	(273,362)	166,162	439,524
Fund Balances - Beginning	<u>123,800</u>	<u>273,362</u>	<u>273,552</u>	<u>190</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 439,714</u>	<u>\$ 439,714</u>

WASHINGTON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2.

**Reconciliation of the Budgetary Comparison Schedule - General Fund
to the Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Funds**

Total Revenues - Budgetary Basis	\$ 2,421,326
Add: Debt payments made directly to KADD by Mackville Fire Department	<u>7,182</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 2,428,508</u></u>
Total Expenditures - Budgetary Basis	\$ 2,223,682
Add: Debt Service Payments to KADD	<u>7,182</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 2,230,864</u></u>

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**WASHINGTON COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

**WASHINGTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

	Local Government Economic Assistance Fund	Jail Fund	Jimtown Redevelopment Project Grant Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 31,352	\$ 2,125	\$ 0	\$ 33,477
Total assets	<u>\$ 31,352</u>	<u>\$ 2,125</u>	<u>\$ 0</u>	<u>\$ 33,477</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	\$ 31,352	\$ 2,125	\$ 0	\$ 33,477
Total Fund Balances	<u>\$ 31,352</u>	<u>\$ 2,125</u>	<u>\$ 0</u>	<u>\$ 33,477</u>

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WASHINGTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

WASHINGTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Jail Fund	Jimtown Redevelopment Project Grant Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 51,994	\$ 37,508	\$ 322,817	\$ 412,319
Charges for Services		1,345		1,345
Miscellaneous		9,580		9,580
Interest	24			24
Total Revenues	<u>52,018</u>	<u>48,433</u>	<u>322,817</u>	<u>423,268</u>
EXPENDITURES				
General Government				-
Protection to Persons and Property		262,331		262,331
Social Services			337,882	337,882
Roads	35,126			35,126
Administration	22	16,628		16,650
Total Expenditures	<u>35,148</u>	<u>278,959</u>	<u>337,882</u>	<u>651,989</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>16,870</u>	<u>(230,526)</u>	<u>(15,065)</u>	<u>(228,721)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		228,000		228,000
Total Other Financing Sources (Uses)		<u>228,000</u>		<u>228,000</u>
Net Change in Fund Balances	16,870	(2,526)	(15,065)	(721)
Fund Balances - Beginning (Restated)	14,482	4,651	15,065	34,198
Fund Balances - Ending	<u>\$ 31,352</u>	<u>\$ 2,125</u>	<u>\$ 0</u>	<u>\$ 33,477</u>

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COMMENT AND RECOMMENDATION

**WASHINGTON COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2004

CURRENT YEAR COMMENTS

REPORTABLE CONDITION AND INTERNAL CONTROL MATERIAL WEAKNESS

Financial Reporting System Deficiencies

The county utilizes a manual accounting system for posting entries from the disbursements journal to the appropriations ledger. The working trial balance is then prepared from the appropriations ledger. During our review of the client's trial balance, we discovered un-located differences between the cash disbursements journal and the appropriations ledger. The un-located differences, representing the excess of disbursements over documented appropriations, in the General fund and Road fund was \$20,463.54 and \$6,157.18 respectively. We recommend that subsidiary journals be reconciled to the appropriations ledger on a regular basis.

County Judge/Executive John A. Settles' Response:

We will reconcile subsidiary journals on a monthly basis to the appropriations ledger and inquire about financial accounting software that integrates/automates current manual accounting system.

NONCOMPLIANCES

None.

PRIOR YEAR COMMENTS

NONCOMPLIANCES

Reference Number 2003-1

The County Should Require Depository Institutions to Pledge Or Provide Sufficient Collateral To Protect Deposits

County Judge/Executive John A. Settles' Response:

This item has been corrected.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



America Counts on CPAs

NOEL C. TURNER, PSC
Certified Public Accountant

P.O. Box 363
206 South Main Street
Harrodsburg, KY 40330
Voice: (859) 733-9241
Fax: (859) 733-9240
Mobile: (859) 265-0483
E-mail: noel@noelturnercpa.com

Member:
American Institute of Certified
Public Accountants

Kentucky Society of Certified
Public Accountants

Honorable John A. Settles, Washington County Judge/Executive
Members of the Washington County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Washington County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued my report thereon dated August 2, 2005. Washington County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Washington County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Washington County Fiscal Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of comment and recommendation as:

- **Financial Reporting System Deficiencies**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I consider the reportable condition listed above to be a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Washington County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Noel C. Turner, PSC

Harrodsburg, Kentucky

Audit fieldwork completed -
August 2, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WASHINGTON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

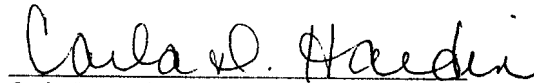
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WASHINGTON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Washington County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John A. Settles
County Judge/Executive



Carla D. Hardin
County Treasurer